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CHARLES ELL

IN THE
SUPREME COURT OF THE UNITED STATES.

OCTOBER TERM, 1942.

No. 696.

A. W. ALTVATER and THE WESTERN SUPPLIES COMPANY,
Petitioners,

v.

BENJAMIN W. FREEMAN and THE LOUIS G.
FREEMAN CO.,
Respondents.

**REPLY BRIEF OF PETITIONERS IN SUPPORT
OF PETITION FOR CERTIORARI.**

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I.

Respondents seek to prevent granting of certiorari on an argument that petitioners at times long prior to the present suit infringed their patent. In the first place, it is obvious beyond argument that petitioners' earlier acts have no bearing upon whether this petition should be granted or not. However, two facts completely dispose of this whole argument of respondents.

1. *Prior to grant of any patent* to Freeman, petitioner, Western Supplies Company, sold a machine in competition with Freeman. This machine was the reason for entering the contract, and petitioners paid up fully for all such machines of this type sold. Consequently, respondents have no complaint on that score.

2. After the license, petitioners did design and sell the Model T machine, different from the first machine, believing it not to infringe Freeman's patent. When Freeman sued for specific performance, the District Court held with petitioners. The Court of Appeals reversed (66 F. [2d] 495). Respondents were enjoined from selling any more Model T machines, or dies therefor, and are now in the process of accounting for those they did sell.

Thus, in addition to the fact that prior issues have no bearing on the present petition, both prior issues have been, or are being, completely taken care of. Respondents have added to their control of the industry all machines ever sold by petitioners. They all constructively became "Freeman machines."

II.

Respondents argue that the decision of noninfringement rendered the issue of validity moot, and dissolved all other controversies between the parties. This is merely repeating what the Court of Appeals held. This does not answer the arguments in our main brief as to why this was error.

In the present case, the issue of invalidity was raised by counterclaim. It is for dismissal of this counterclaim that we seek certiorari. Respondents lost on the bill of complaint, but they did not petition for certiorari.

We again point out that the declaratory judgment act has been variously interpreted by Circuit Courts of Appeals as to the right of a defendant to a counterclaim for decla-

ration of invalidity, even where the issues are only those set up in the complaint. A decision of this Court establishing a uniform rule is highly desirable.

Actually the present counterclaim raised issues quite beyond those in the complaint, of many dies other than the two adjudicated on the complaint. These other dies admittedly infringe if the patents are valid. Respondents' charge that the contract should be generally specifically enforced (R. 6) was a charge of continuing claim against these other dies.

There is, therefore, a strong analogy between this case and the case decided December 7, 1942, by this Court, *Sola Electric Co. v. Jefferson Electric Co.*, 87 L. ed. 150. In that case, the defendant-licensee filed a counterclaim alleging invalidity of certain claims of the patent under which it was licensed. The District Court sustained a motion to strike the counterclaim. The Court of Appeals for the Seventh Circuit affirmed. This Court reversed, holding that if acts (there, price control) are required by the license, which, in the absence of the patent, would violate the Anti-trust Act, then a counterclaim for invalidity is perfectly proper and must be entertained. This is a ruling that a licensee may have a separate declaratory suit for adjudication of invalidity at any time that validity of the patent is a condition of legality of the contract.

If the counterclaim must be entertained under the circumstances of the *Sola Electric* case, then, it is submitted, that the same reasoning, as well as the same purpose to protect the public interest, must control in the present case, and the counterclaim must be sustained. Here the improper acts were not price control, but they were equally improper and illegal under the federal patent law. *Morton Salt v. Suppiger*, 314 U. S. 488.

III.

Respondents argue that Freeman's licenses are proper. The various leases and licenses are of record, and some of their provisions were discussed in our main brief. Freeman, of course, had a right to license his competition, but he did not have a right to employ his licenses as a means to restrict competition beyond the scope of his patent rights. Price restriction is not the sole criterion of improper monopoly. *Morton Salt v. Suppiger Co.*, 314 U. S. 488; *Motion Picture Patents case*, 243 U. S. 502. Actually Freeman did, in one instance, employ price control (Ex. A-16). And price control, whether expressed or not, inevitably follows agreements by licensees not to make the competing and unpatented products that comprise the economic price governor.

Petitioners refused to agree in their license that they would not make competing products.* Oddly enough, respondents urge that petitioners' activity forced Freeman to insist on this restriction in other licenses (Br. 14), thus proving that the merits of his invention as patented were insufficient to produce a market in the face of unpatented competition.

IV.

Respondents urge that their procedure in obtaining the reissue patents was proper. This is not the place to argue that, as it will come up on the presentation of the case if this petition is granted. However, the grounds of invalidity involve some aspects of patent law not heretofore expressly ruled on by this Court.

One such legal issue is whether a licensor may *ex parte* reissue his patent, after extraneous litigation has largely invalidated it, and force upon his licensee the choice of

*Even were petitioners *in pari delicto* with respondents, they could still assert this counterclaim. *Sola Electric Co. v. Jefferson Electric Co.*, *supra*.

losing all license, or accepting a license under the reissues, at their face value, thereby losing his right to contest validity, despite their being obviously invalid. Another is whether or not an improper disclaimer made prior to grant of reissues, destroys the original patent and removes all legal basis for grant of reissues. A third is whether a patentee may recapture, by reissue, subject matter indistinguishable from subject matter previously invalidated, as well as disclaimed. A fourth is whether a patentee may reissue his patent to include subject matter different from that originally claimed, in the face of an apparent disclaimer of the said matter in the original patent.

The Court will see that these are interesting points dealing with the determination of the proper scope to be given to patent rights.

The question of validity of these patents is not likely to come before this Court within the remaining years of their term. The only other chance is in litigation now pending in a district court, which offers no promise of reaching this Court prior to expiration of the reissues.

Conclusion.

The far-reaching result that affects materially the public interest is that the failure of the Court below to decide the question of validity leaves the respondents in a position to collect tribute from its many outstanding licensees. These licensees are bound by contract that prevents contest of validity of patents declared invalid by the District Court below. These contracts all have illegal restrictions as the District Court found. The public bears not only the tribute paid under the patent, but competition is restrained to the detriment of the public interest.

The extraneous war situation adverted to by respondents, even if true, cannot be used to shield the respondents

in a continuation of illegal practices under the guise of a patent already declared invalid by the District Court, and definitely restricted to a minor scope by the Court of Appeals of the First Circuit, respondents' present assertion of breadth of coverage notwithstanding.

Respectfully submitted,

A. W. ALTVATER and THE WESTERN
SUPPLIES COMPANY,

By LAWRENCE C. KINGSLAND,
EDMUND C. ROGERS,
Counsel for Petitioners.

St. Louis, Missouri,
February 25, 1943.